

Forewarned is forearmed !?!

Early Warning & Forecasting – in practice

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Hochschule Emden-Leer, 9 May 2018

Introduction

„Know your enemy and yourself,
in a hundred battles
you will never be in danger.“

Sun Tzu, „The Art of War“

Introduction

„When I made a decision or chose an alternative, I did so after studying all the relevant - and many irrelevant - factors. Geography, tribal structures, religion, customs, language, greed, basics - I had everything ready.

I almost knew the enemy like my own side. “

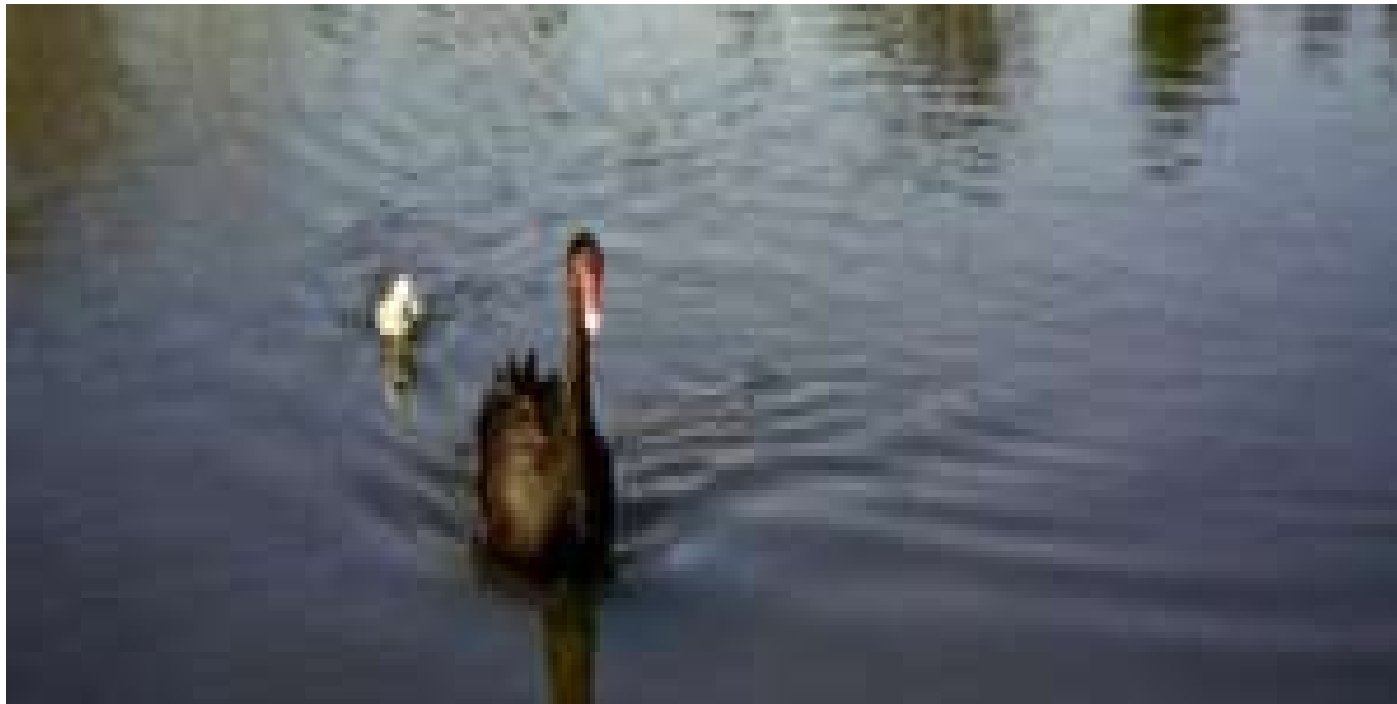
LTC (GBR) T.E. Lawrence /
Lawrence of Arabia, 1933

Introduction

„As much a commander of the development of his own thoughts may be taken; sometimes you just do not get around also to consider the enemy in these considerations.“

Winston Churchill

Introduction



Classification

- legal: „KonTraG“ // „IDW PS 340“

„The Management Board must set up a monitoring system so that developments with the potential to jeopardize the continued existence of the company can be detected early.“

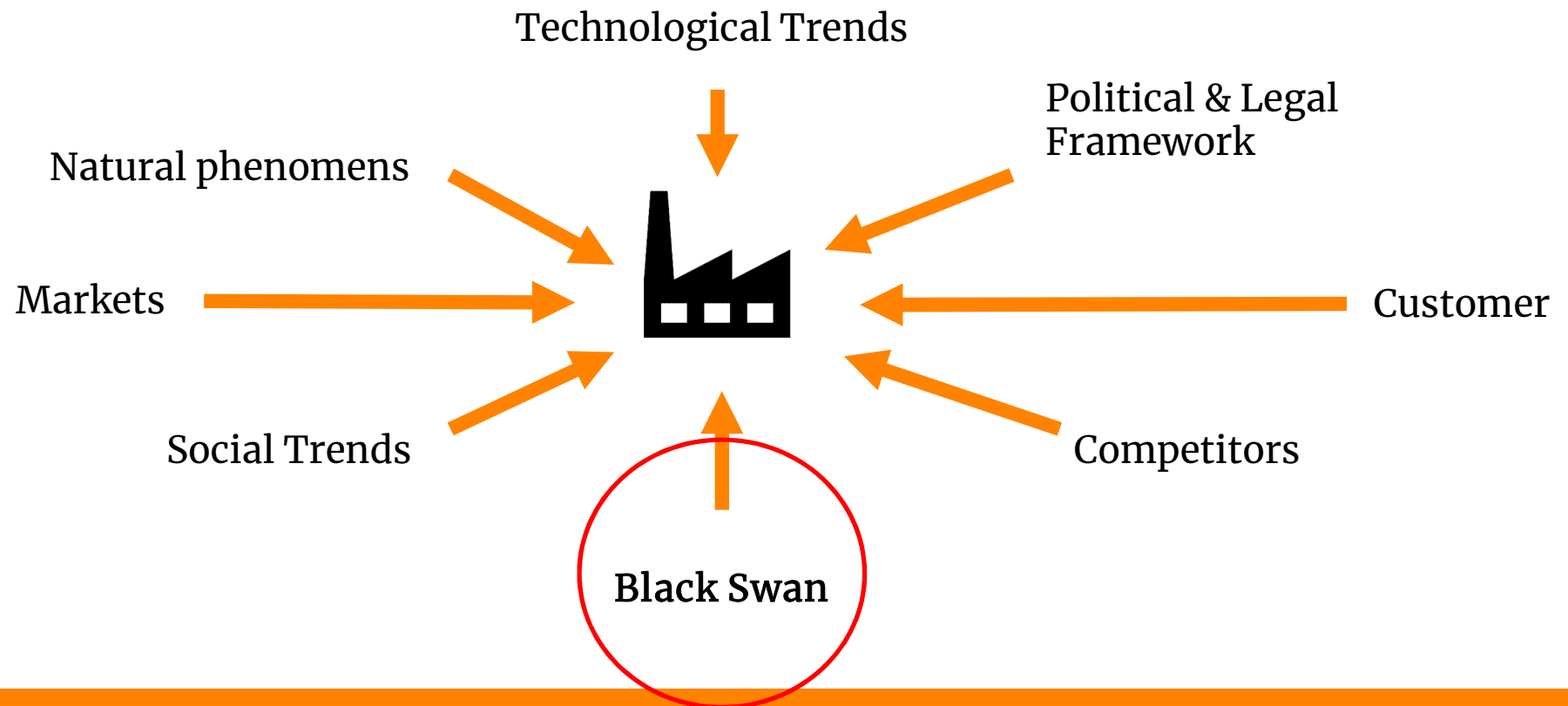
(cf. § 91 Abs. 2 AktG)

- Economically: „Forecast“
- Operational: Part of the strategic planning process

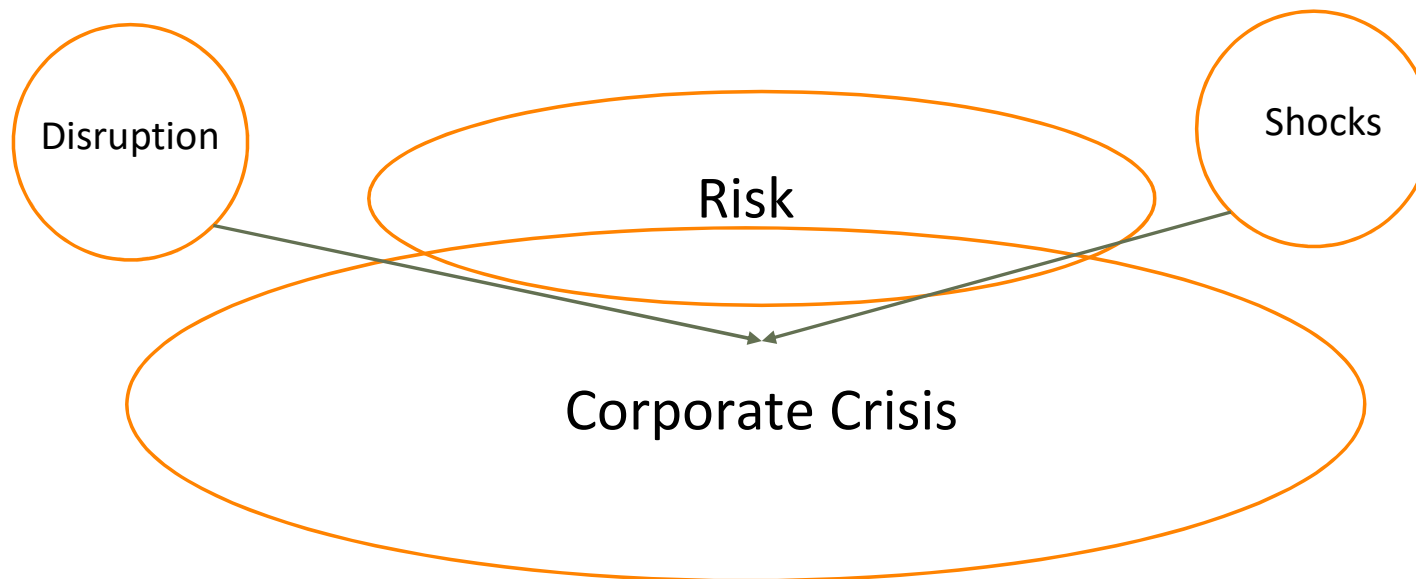
Part of the SWOT-Analysis



Corporate Environment

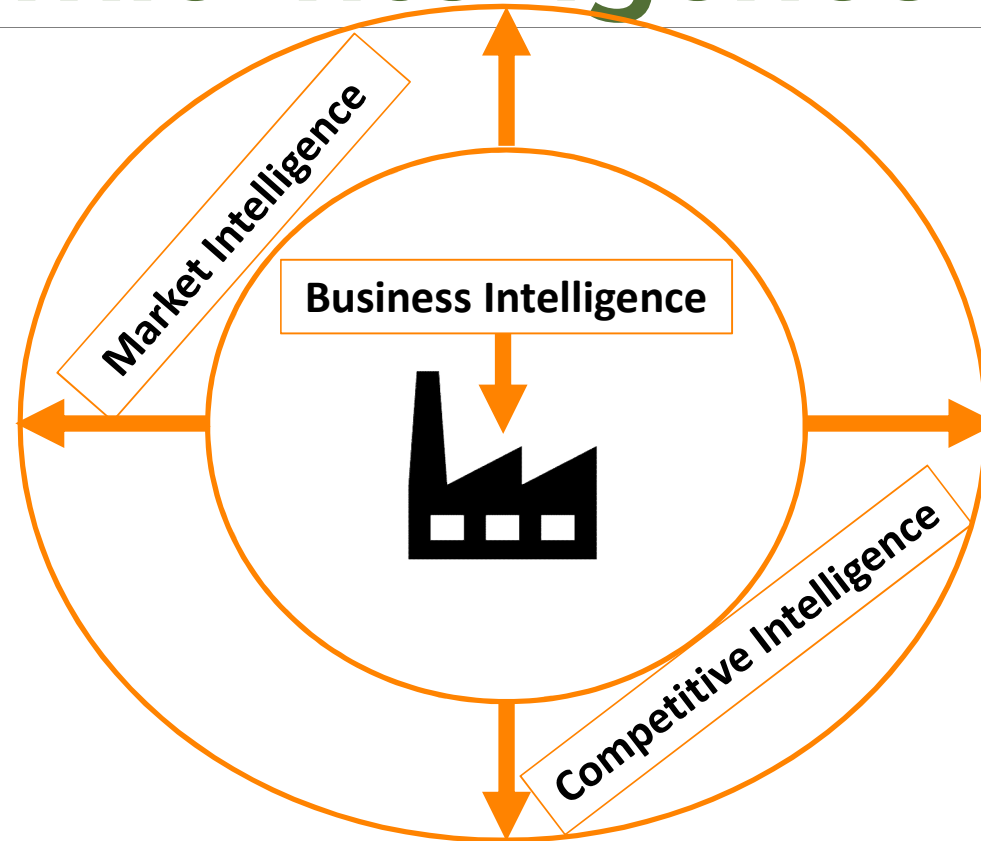


„early risk detection“ vs. „early crisis detection“



Nach Krystek/Moldenhauer

„Economic Intelligence“



Analysis of the corporate environment

Customer analysis	Market analysis	Environmental analysis
Customer segments	Industry structure	Strategic early warning
Customer needs	Competitor analysis (CI)	Operational early warning
		Early warning
		Scenario planning

Early warning through indices?

Conventional:

- Gross Domestic Product (GDP)
- Stock exchanges
- Jobless statistics
- Insolvency statistics
- Polls (Ifo / ZEW)

Unconventional:

- Baltic Dry Index
- Fear & Greed Index

And then: the flap of a butterfly...



Foto: pixabay

...and the black swan is coming



Foto: pixabay

Hence: Forecast impossible?

A major part of the news received in war are contradictory, an even larger part is contradictory and by far the largest part is rather uncertain.

Carl von Clausewitz

More often than not, business is smell, feel and touch as much as or more than numbers.

Jack Welch

Limitations of mathematics

„Most economic relationships are so complex that they can not be summarized in manageable mathematical models. The available mathematical methods often require so much simplification for the application that the handling of practical problems becomes meaningless.“
Schwarze, “Mathematik für Wirtschaftswissenschaftler”

Strategic early warning „Strategische Frühaufklärung“

“Warnings (external or internal), events and developments which are still too incomplete to permit an accurate estimation of their impact and/or to determine their full-fledged responses.”

“Weak Signals are first symptoms of strategic discontinuities, i.e. symptoms of possible change in the future, acting as warning signs of new possibilities.”

Harry Igor Ansoff,
Managing Surprise and Discontinuity

Analysis, Forecasts & Predictions



Analysis, Forecasts & Predictions

Election of Mr. Trump – set date, predicting result (50:50!)

Crash – set conditions, predicting time

Of hedgehogs & Foxes...



Megatrends

Digitalisation

Climate Change

Demographics

Indebtedness

Migration

Energy supply

Society's re-orientation

Geopolitical tensions

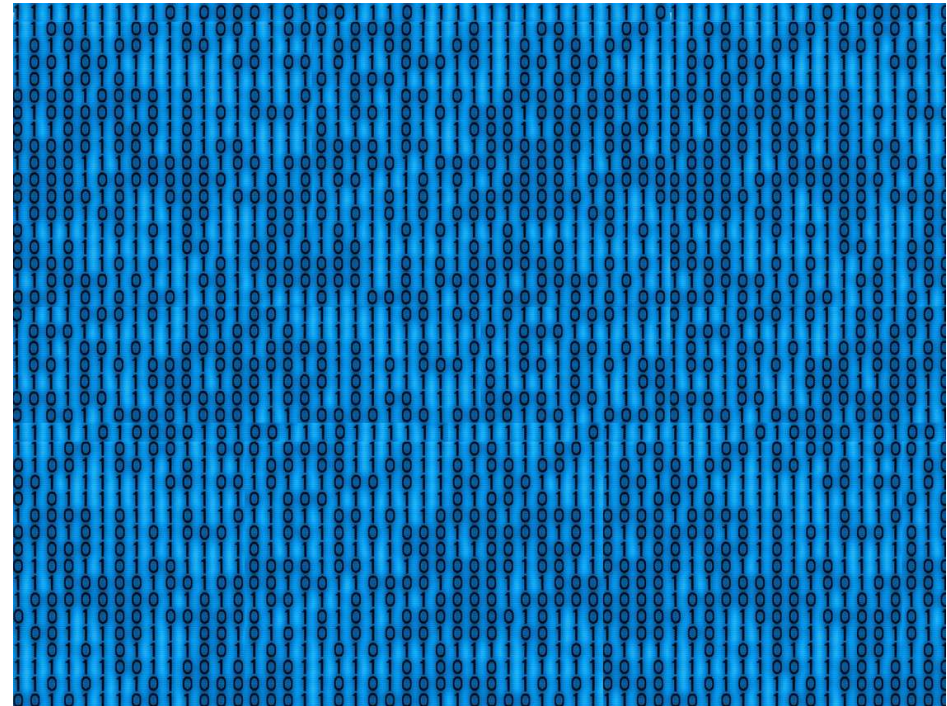


Foto: pixabay

Prominent misjudgements - Digitalisation

„I guarantee you that the iPhone will not sell very well.“

S. Ballmer, Microsoft, 2007

“The development of mobile phones will be similar to PCs. Even with the Mac, Apple has attracted much attention at first, but they have still remained a niche manufacturer. That will be in mobile phones as well.”

Anssi Vanjoki, Nokia, 2009

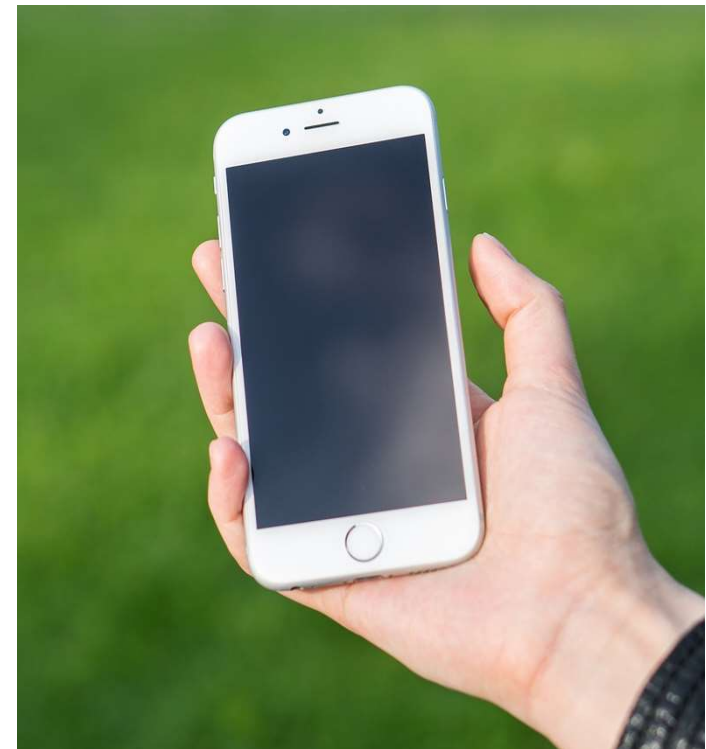


Foto: pixabay

Prominent misjudgements - economic crises

„Stock prices have, so it seems, reached a permanently high level.“

Irving Fischer, US economist, 14 October 1929

“We expect problems in the subprime sector to have little impact on the rest of the economy or the financial system.”

Ben Bernanke, Fed President, 17 May 2007



„Famous last words“?

„Would I say there will never, ever be another financial crisis? You know probably that would be going too far but I do think we're much safer and I hope that it will not be in our lifetimes and I don't believe it will be.“

Janet Yellen, Fed President, 27 June 2017

“???”



View into the glass bowl



Foto: pixabay

View into the glass bowl

*"When America sneezes, the
rest of the world gets a cold"*
Stock market wisdom

*"History doesn't repeat
itself but it often rhymes."*
Mark Twain

- Amerika sneezed in 2007 – the worldwide repercussions are well known
- And now, 2018???

Kapitalmarktgespräche

Kapitalanlage in der Sozialwirtschaft - zwischen Rendite und Risiko

Bank für Sozialwirtschaft
Berlin, 10. Juli 2007
Volker Beissenhirtz
Dr. jur., LL.M., Rechtsanwalt

Subprime

CovLite

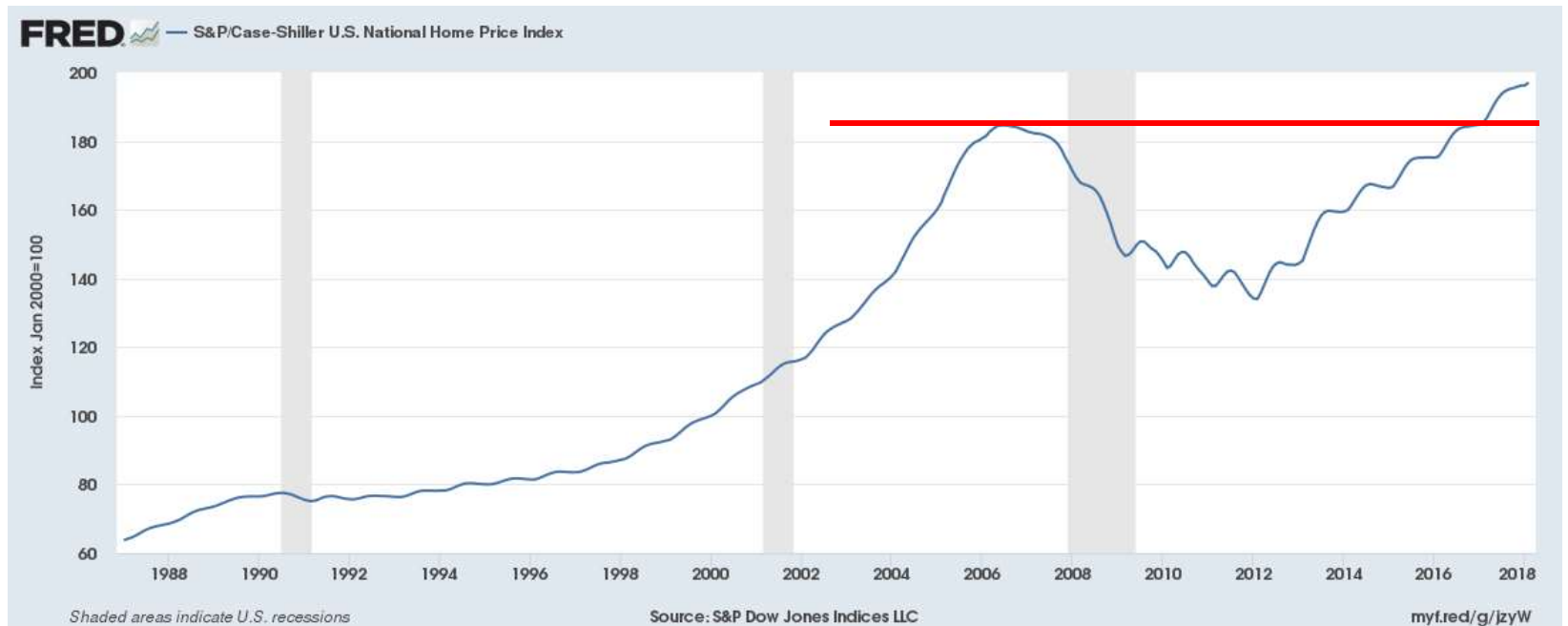
CDs

CDO

Early Warning Signs from the US

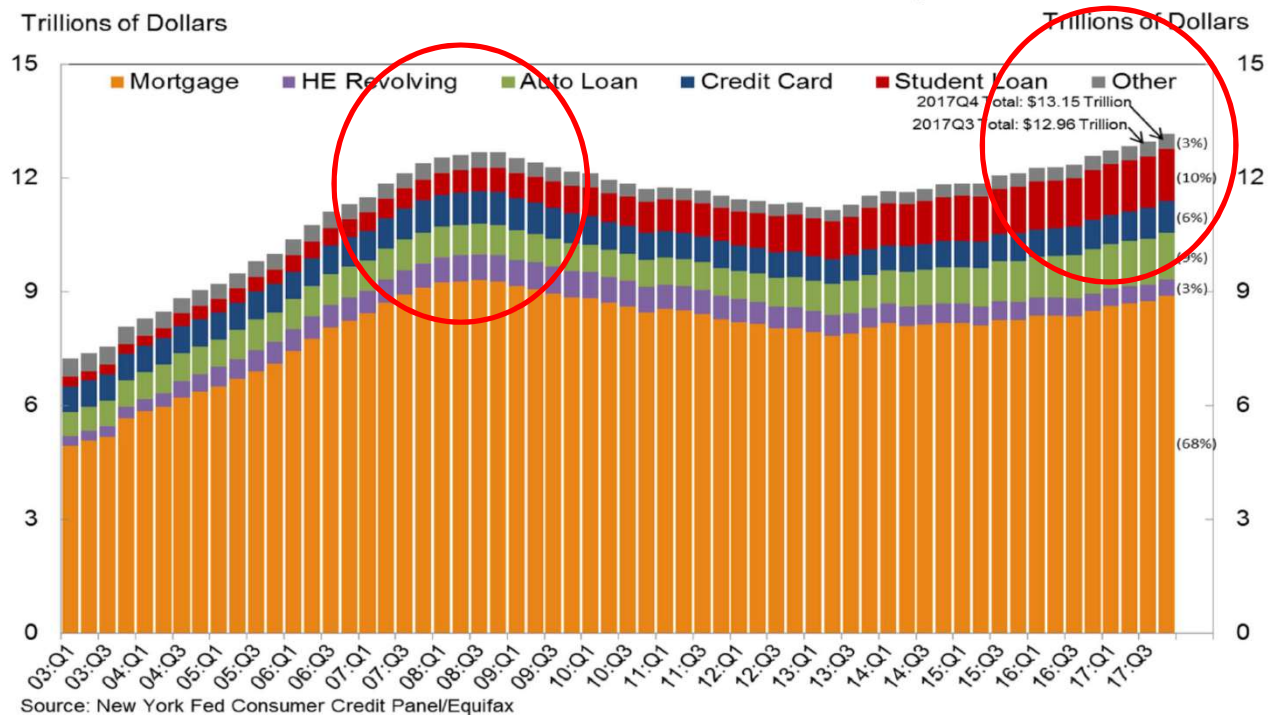
Case-Shiller-Index

Last peak of 2006 surpassed



Early Warning Signs from the US

Total Debt Balance and its Composition










3



Retail USA

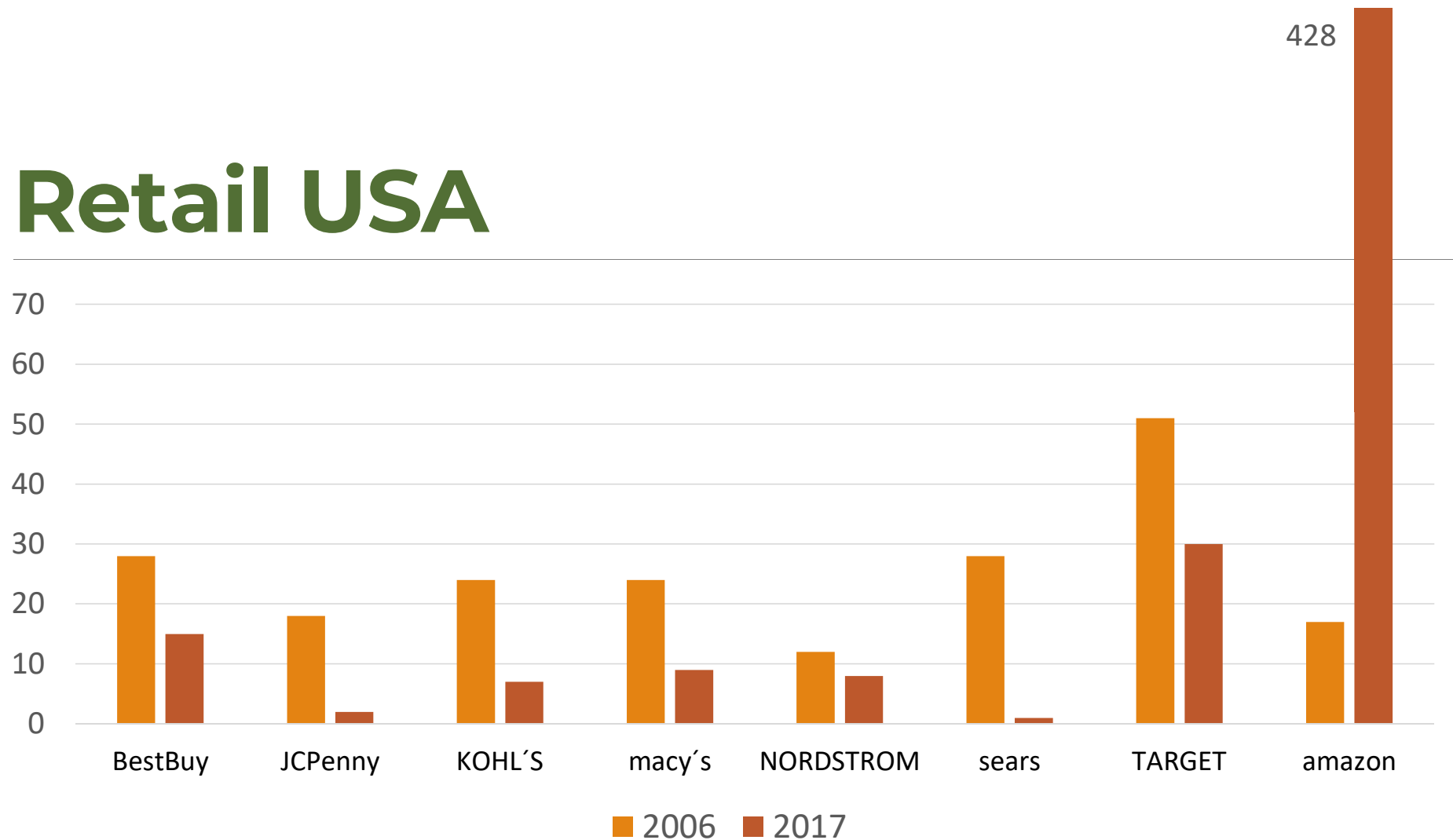
Brick & Mortar Retailer Market Value (2006* vs. Today)

Item	Market Value 2006	Market Value (3/31/17)	% Change
 BEST BUY	\$28.4B	\$15.0B	-47%
JCPenney	\$18.1B	\$1.7B	-91%
 KOHLS	\$24.2B	\$6.5B	-73%
 macy's	\$24.2B	\$8.7B	-64%
NORDSTROM	\$12.4B	\$7.5B	-40%
 sears	\$27.8B	\$1.2B	-96%
 TARGET	\$51.3B	\$29.4B	-43%
 Walmart	\$214.0B	\$217.8B	2%
 amazon	\$17.5B	\$428.3B	2347%

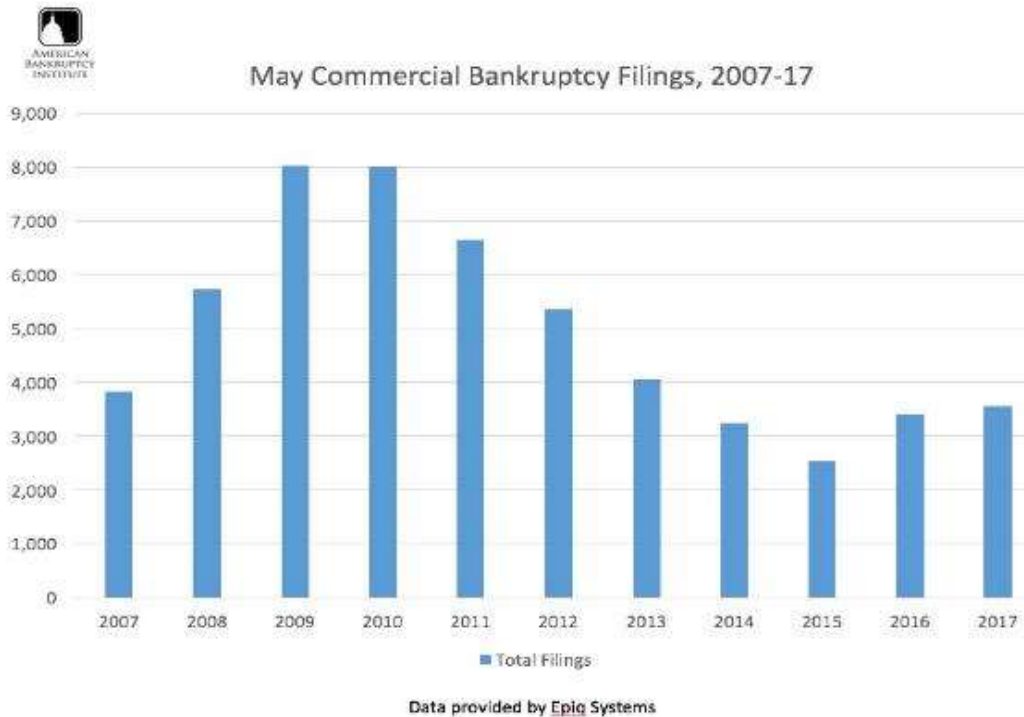
*Source: Yahoo Finance

*Peak Market Value 2006

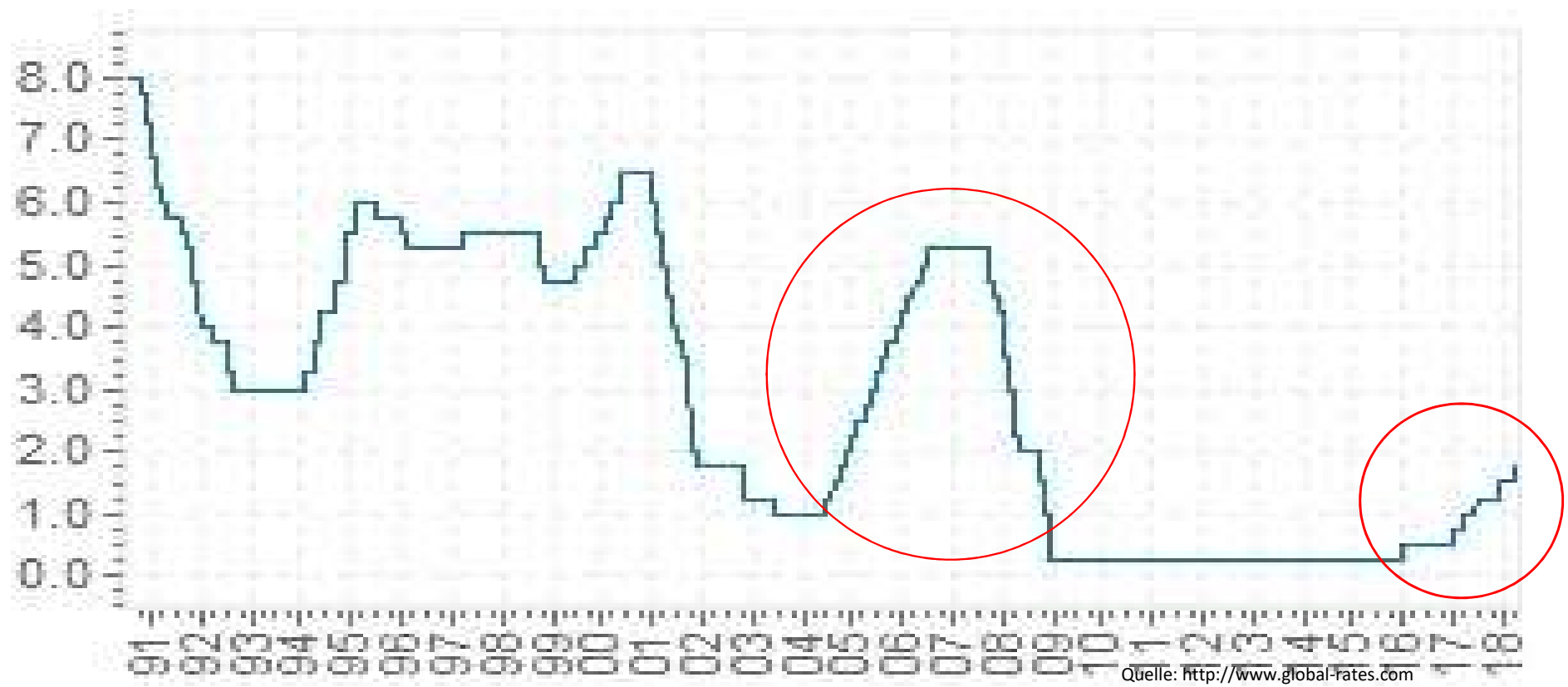
Retail USA



Bankruptcies USA



Fed`s interest rate

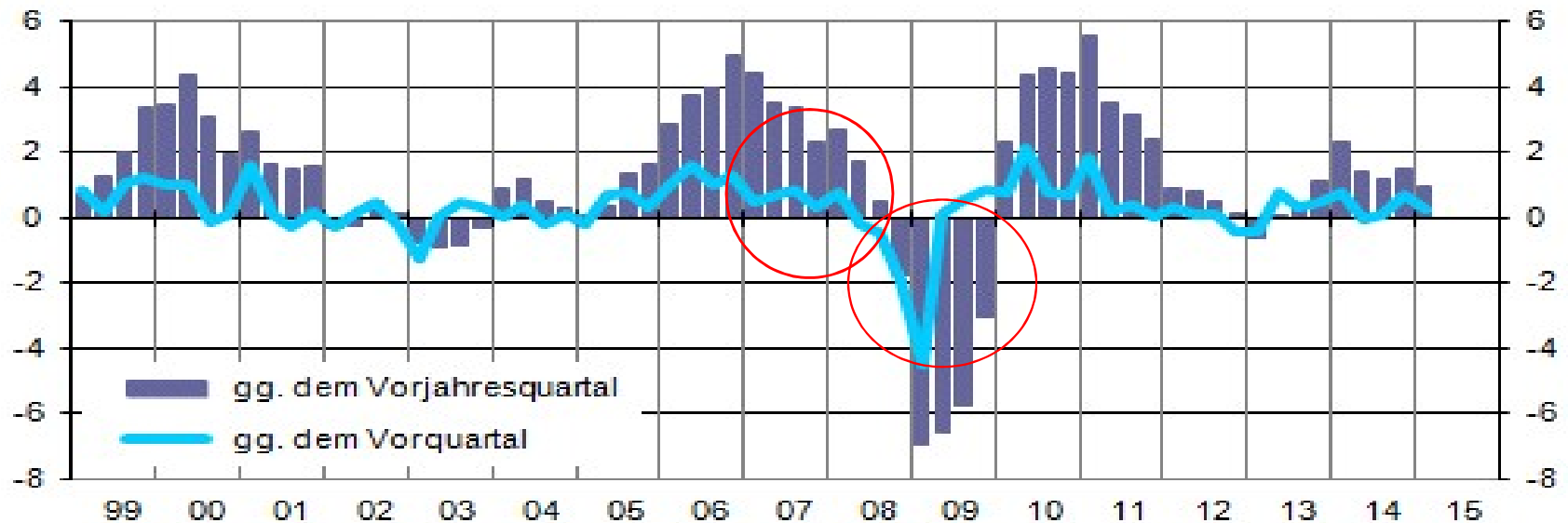


10yr US-treasury interest rate



Repercussions for Germany?

Bruttoinlandsprodukt^{*)}
Veränderung in Prozent



^{*)} preis-, saison- und kalenderbereinigt

Quelle: Deutsche Bundesbank

©UR

View into the glass bowl - conclusion

*"When America sneezes, the
rest of the world gets a cold"*
Stock market wisdom

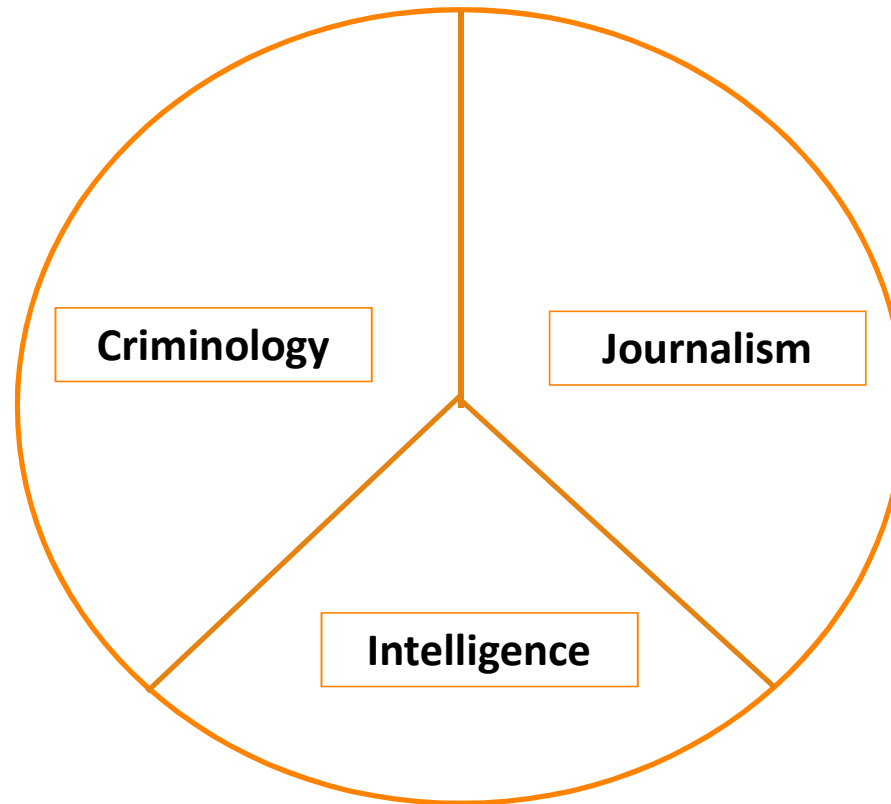
*"History doesn't repeat
itself but it often rhymes."*
Mark Twain

- Amerika sneezed in 2007 – the worldwide repercussions are well known
- And now, 2018???
- What is your opinion?

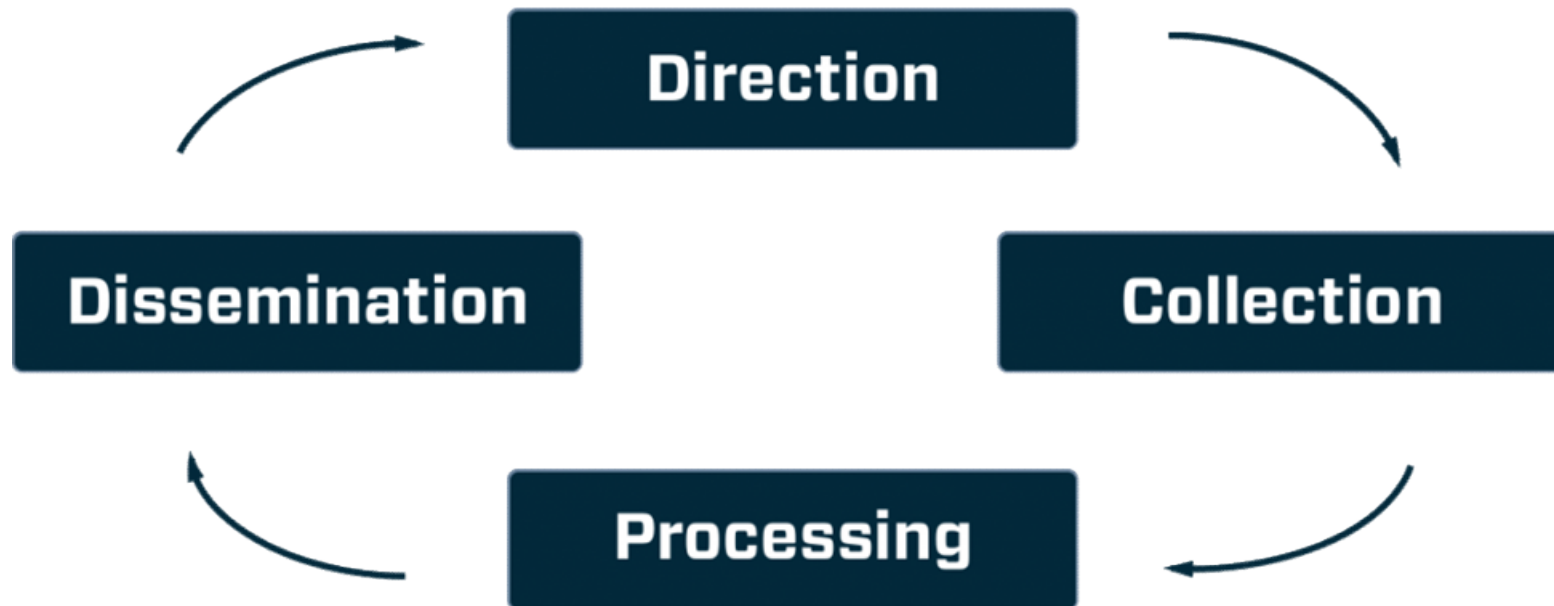
Take Aways

- Detecting early warning signals is a lengthy act of observation and analysis
- The process of detection is a cycle - the end is the beginning
- A „News-Junkie“ might be a better risk detector than a controller

Take Aways



„Intelligence Cycle“



At the end

„If a trend becomes obvious,
you are too late!“

Elon Musk



Foto: wikipedia

At the end

“It is less important
to foresee the future
than to be prepared
for it.”

Perikles

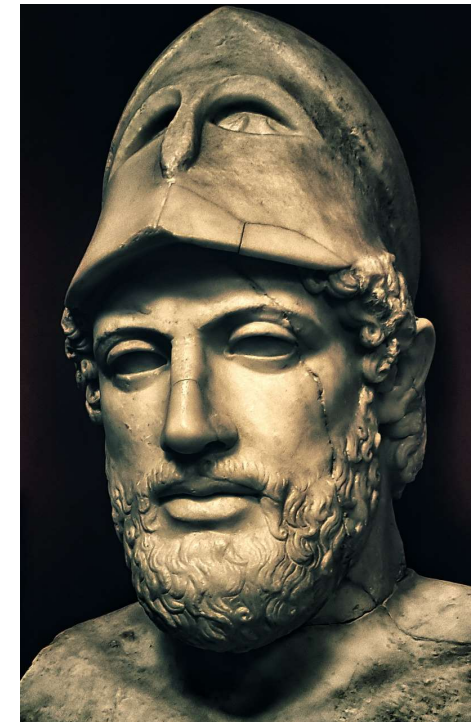


Foto: pixabay

At the end

**„Operations without intelligence is impossible
Intelligence without operations is irrelevant“**

Forecasts

- „The Global Risks Report“, World Economic Forum
- „The Pessimist’s Guide“, Bloomberg
- „Top Risks“, Eurasia Group
- „Annual Report“ Bank for International Settlements
- „Year-Ahead Predictions“, A.T. Kearny
- Forecast „5 Wirtschaftsweisen“

- Moody’s Alerts
- iwd-Newsletter (German)

- „2018 – Cassandras Blick in die Glaskugel“, Beissenhirtz, ZInsO 2018, 281
- legonomics.de

Weiterführende Literatur

- „Managing Surprise and Discontinuity – Strategic Responses to Weak Signals“, Ansoff, ZfbF 1976, 129
- „Strategic Management“, Ansoff, 1979
- „Competitive Strategy“, Porter, 1980
- „Competitive Intelligence“, Michaeli, 2012
- „Super Forecasting“, Tetlock / Gardner, 2016
- „The Signal & The Noise“, Silver, 2012

Thank You !

„-tz“